

## Message Text

CONFIDENTIAL

PAGE 01 GEORGE 01394 01 OF 02 110054Z

66

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

----- 034851

O 100910Z AUG 74

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC NIACT IMMEDIATE 121

C O N F I D E N T I A L SECTION 1 OF 2 GEORGETOWN 1394

EXDIS

DEPT PASS OPIC

E.O. 11652: GDS

TAGS: EMIN PFOR GY

SUBJECT: REYNOLDS GUYANA - MEETING WITH PRIME MINISTER

REF: STATE 174380

SUMMARY: IN 90 MINUTE TALK AUGUST 10 PM BURNHAM ASSURED ME GOG WILLING ASSURE REYNOLDS LONG-TERM ACCESS TO BAUXITE SUPPLY ON TERMS ANALOGOUS TO GUYBAU CONTRACTS WITH ALCAN AND THAT GOG WILL CONCEDE LOWER PRODUCTION LEVY ON CALCINED BAUXITE THAN ON METAL GRADE. HE GAVE NO GROUND ON NATION-ALIZATION BUT ACKNOWLEDGE THAT CONCURRENT TAX PROPOSAL HAD MADE RESOLUTION OF REYNOLDS CASE MUCH MORE DIFFICULT. HE ASSURED ME HE WISHED CONTINUE FRIENDLY RELATIONS WITH USG, BOTH BECAUSE OF PAST HISTORY OF COOPERATION AND MUTUAL RESPECT, AND BECAUSE HE RESPECTED US "POWER". HE CONCEDED THAT ONCE PRODUCTION LEVY PRESENTED TO LEGISLATURE FURTHER MEANINGFUL NEGOTIATIONS PRECLUDED AND SAID THEREFORE HE WANTED FURTHER TALKS WITH ME OVER WEEKEND AFTER HE HAD CONSULTED WITH MINMINES HUBERT JACK. END SUMMARY.

1. WHEN I SAW FONMIN RAMPHAL AT 1900 AUG 9 TO PRESENT SECRETARY KISSINGER MESSAGE ON PRESIDENTIAL SUCCESSION, I TOLD RAMPHAL I HAD INSTRUCTION TO TAKE UP REYNOLDS MATTER WITH PM AND SINCE SUBJECT TO BE DISCUSSED AT CABINET MEETING AUGUST 13 MY REQUEST TO SEE PM NOW SEEMED URGENT. HE SAID HE WOULD GET WORD TO PM.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 GEORGE 01394 01 OF 02 110054Z

BURNHAM PHONED ME AT 0915 AUG 10 AND ASKED ME TO COME TO

BELFIELD AT 11.

2. AFTER CORDIAL WELCOME, HE SAID HE UNDERSTOOD I WANTED TALK ABOUT REYNOLDS, AND HE HAD HOPED I WOULD COME ALONG WITH RAMPHAL AFTER I MET LATTER EVENING AUG 6 (APPARENTLY REMPAHL MISUNDERSTOOD PM'S INTENTION HERE), AND HAD ALSO THOUGHT OF ASKING ME TO SEE HIM EVENING AUG 8 FOLLOWING OPENING CEREMONY GIRL GUIDES JUBILEE AT WHICH HE SPOKE AND WHICH I ATTENDED.

3. I THANKED HIM AND SAID I NOW HAD MESSAGE FROM DEPT SUMMARIZING USG REACTIONS TO NEGOTIATIONS THIS WEEK AND VIEWS REGARDING FUTURE. I THEN MADE PRESENTATION BASED ON REFTEL. SINCE IT HAS BEEN CLEAR TO US HE HAS TAKEN PERSONAL INTEREST IN MATTER ALL ALONG, I ALTERED TEXT OF FIFTH SENTENCE, PARA ONE TO EXPRESS HOPE PM WOULD ENDEAVOR KEEP DOOR OPEN TO SEEKING BASIS FOR EVENTUALLY AGREEABLE SETTLEMENT. I HANDED HIM COPY OF TEXT OF PRESIDENTIAL MESSAGE OF JANUARY 9, 1972 AND REVIEWED APPLICABLE US STATUTES (SUGAR ACT SEC 408 AND FAA OF 1961, SECTION 620 (E)(1)- PLEASE ADVISE IF THERE ARE OTHERS) AND SAID I WOULD FURNISH COPIES IF HE DESIRED.

4. WHEN I MADE POINT THAT GUYBAU COULD NOT OPERATE AS GOING CONCERN IF OBLIGED TO PAY TAXES ON SCALE DEMANDED BY GOG OF REYNOLDS BURNHAM INTERJECTED (WHICH I ANTICIPATED) THAT GUYBAU NOT RPT NOT DELIVERING METAL GRADE BAUXITE ON BASIS OF INTRA-COMPANY TRANSFER PRICE BUT ON BASIS OF WORLD MARKET PRICE AND WHEN GUYBAU STARTS OPERATING SMELTER GOG WILL TAX ITS OPERATIONS ON SAME BASIS AS NOW PROPOSED FOR REYNOLDS. BESIDES, HE WENT ON, REYNOLDS ALREADY IS PAYING JAMAICA EQUIVALENT OF WHAT GOG PROPOSES TO LEVY.

5. I OBSERVED THAT REYNOLDS HAD SEVERAL OTHER COUNTRIES WITH WHICH IT IS OR IS ABOUT TO BE NEGOTIATING TAX ON BAUXITE AND IT COULD NOT OFFER RPT OFFER ONE GOVT SUBSTANTIALLY MORE THAN OTHERS WITHOUT RISKING PRECIPITOUS ESCALATION. I UNDERSTOOD REYNOLDS OFFER TO GOG REPRESENTED THREE FOLD INCREASE OVER EXISTING REVENUE TO GOG WHEREAS THEIR OFFER TO JAMAICA WOULD ONLY HAVE DOUBLED GOJ REVENUE. BURNHAM BRUSHED THIS ASIDE  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 GEORGE 01394 01 OF 02 110054Z

BY SAYING JAMAICAN REVENUE WAS HIGHER TO BEGIN WITH AND GUYANESE BAUXITE OF HIGHER GRADE.

6. I CONCEDED BOTH THESE POINTS BUT SAID ONE HAD TO CONSIDER PRODUCTION COSTS AS WELL, WHICH WERE CONSIDERABLY HIGHER IN GUYANA THAN IN JAMAICA. BURNHAM SAID OCEAN TRANSPORTATION IS PRINCIPAL FACTOR IN COST DIFFERENTIAL BETWEEN GUYANA AND JAMAICA, AND SINCE BAUXITE SOLD ON FOB BASIS COST OF

TRANSPORTATION MADE NO DIFFERENCE. I SAID THAT MIGHT BE TRUE UNDER PRESENT TAX SYSTEM, BUT WHEN TAX CALCULATED ON BASIS REALIZED PRICE OF ALUMINUM INGOT (AS IN PROPOSED GOG LEVY) TRANSPORTATION AND OTHER COST DIFFERENTIALS HAD TO BE CONSIDERED. HE CONCEDED THIS POINT.

7. BURNHAM ASKED WHETHER USG PRIMARY INTEREST IS IN ASSURED SUPPLY OF BAUXITE. I SAID THIS WAS TRUE IN GLOBAL CONTEXT RECOGNIZING THAT GUYANA IS NOT PRINCIPAL SOURCE FOR US NOR IN FACT DOES REYNOLDS DRAW MORE THAN 10 PERCENT OF ITS BAUXITE FROM GUYANA. BURNHAM AGREED, BUT SAID HE THOUGHT REYNOLDS HAD BEEN SELLING MOST OF ITS CALCINED BAUXITE IN US. I SAID I WASNT SURE ABOUT THIS SINCE REYNOLDS TEAM THIS WEEK HAD TALKED OF IMPORTANT CALCINED SALES TO EUROPE.

8. BURNHAM THEN SAID HE WAS PREPARED TO CONCEDE SUBSTANTIALLY LOWER LEVY RATE ON CALCINED BAUXITE THAN ON METAL GRADE, SINCE THE MARKETING ARRANGEMENTS ARE DIFFERENT AND IN RECOGNITION OF RELATIVELY SMALL PRICE MARGIN BETWEEN CALCINED AND ALTERNATE PRODUCTS (EG. TABULAR ALUMINA). KREBS

NOTE BY OCT: NOT PASSED OPIC.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 GEORGE 01394 02 OF 02 110031Z

66

ACTION SS-30

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /031 W

----- 034839

O 100940Z AUG 74

FM AMEMBASSY GEORGETOWN

TO SECSTATE WASHDC NIACT IMMEDIATE 122

C O N F I D E N T I A L SECTION 2 OF 2 GEORGETOWN 1394

EXDIS

DEPT PASS OPIC

9. REVERTING TO METAL GRADE, BURNHAM SAID IF REYNOLDS WERE REALLY INTERESTED IN LONG-TERM ACCESS TO BAUXITE IN GUYANA HE COULD ASSURE REYNOLDS GOG WILLING TO SELL THEM BAUXITE AT REASONABLE PRICE ON LONG-TERM CONTRACT. HE CITED

CONTINUING GUYBAU SALES TO ALCAN AS PRECEDENT, AND NOTED THAT GUYBAU IS PRESENTLY NEGOTIATING 1975 CONTRACT WITH ALCAN. HE SAID GUYBAU CONTRACTS WITH ALL CUSTOMERS ARE BASED ON "WORLD MARKET PRICE" OF BAUXITE (HE DID NOT ELABORATE ON HOW THIS IS DETERMINED), WITH ESCALATOR CLAUSE TO REFLECT RISES IN COSTS OF IMPORTS (FUEL OIL, MACHINERY, EQUIPMENT, ETC.)

10. I SAID I WOULD CONVEY BOTH THESE POINTS TO DEPT BUT STILL LEFT US WITH DILEMMA OF RETROACTIVE TAX-CUM-NATIONALIZATION. BURNHAM SAID NATIONALIZATION WAS SUPPORTED BY ALL BUT AN INSIGNIFICANT ELEMENT OF GUYANAENSE PEOPLE AND WITHOUT IT US WOULD BE DEALING WITH A DIFFERENT PM (INQUIRING JOKINGLY IF WE HAD ANY CANDIDATES). TO HIM THIS MEANT EITHER MAJORITY OWNERSHIP AND CONTROL OR OUTRIGHT TAKEOVER WITH COMPENSATION. HE RECALLED UNSATISFACTORY ALCAN DEBT-FUNDED PARTICIPATION OFFER AND SAID MCCONNELL HAD TOLD HIM IN 1971 THAT REYNOLDS WOULD NOT ACCEPT GOG MAJORITY PARTICIPATION UNDER ANY CIRCUMSTANCES. HE AGAIN DISMISSED REYNOLDS FEBRUARY 1974 OFFER TO SET UP SEPARATE CALCINED FACILITY WITH MAJORITY GOG PARTICIPATION BUT UNDER REYNOLDS MANAGEMENT. HE SAID ONE REASON HE HAD CONFIDENTIAL

CONFIDENTIAL

PAGE 02 GEORGE 01394 02 OF 02 110031Z

REJECTED THIS OFFER WAS THAT REYNOLDS CONSISTENTLY PRODUCED LOWER QUALITY CALCINED THAN GUYBAU, IN SPITE OF BETTER GRADE RAW BAUXITE. LAUGHING, HE SAID IF ANYTHING GUYBAU SHOULD HAVE OFFERED REYNOLDS TECHNICAL ASSISTANCE ON CALCINED PRODUCTION TECHNIQUES.

11. BURNHAM WENT ON TO SAY THAT REYNOLDS NATIONALIZATION QUESTION HAD RUN INTO POLITICAL AND ECONOMIC COMPLICATIONS POLITICAL BECAUSE OF JAMAICAN TAX ACTION WHICH EXPOSED HIM TO INVIDIOUS COMPASSION AND ECONOMIC BACUAYB# OF STEEP RISE IN COST OF GUYANESE IMPORTS INCLUDING FINISHED ALUMINUM. HE SAID GOG COULDN'T FAIL TO TAKE NOTE OF FACT THAT REYNOLDS PROFITS (PRESUMABLY WORLDWIDE) WERE UP 600 PERCENT IN FIRST QUARTER 1974 OVER FIRST QUARTER 1973. HE SAID IT WAS "UNFORTUNATE" THIS SERIES OF EVENTS HAD OCCURRED BUT HE WAS OPEN TO SUGGESTIONS FOR MUTUALLY AGREEABLE RESOLUTION.

12. I SAID USG POLICY WAS CLEAR- WE WOULD HAVE PROBLEM IF COMPENSATION DID NOT MEET OUR CRITERIA, AND WORD "EFFECTIVE" INCLUDED SUCH FACTORS AS UNUSUAL TAX LEVIES AND TERMS UNDER WHICH COMPENSATION ACTUALLY PAID, ESPECIALLY LENGTH OF PAYMENT PERIOD. I ADDED THAT I THOUGHT ONE WOULD HAVE TO TAKE INTO ACCOUNT THE EVOLUTION OF BAUXITE OPERATIONS SINCE 1971 IN JUDGING REYNOLDS CURRENT ATTITUDES REGARDING FUTURE ARRANGEMENTS IN GUYANA. IN THIS CONNECTION, I SAID

I HAD BEEN DOING SOME BRAIN-STORMING MYSELF THIS WEEK WITH HELP OF EMBASSY STAFF AND OPIC REPRESENTATIVE. IT SEEMS TO ME THERE WERE SOME ADDITIONAL OPTIONS WHICH MIGHT PROVE PALATABLE BOTH TO GOG AND REYNOLDS.

13. HOWEVER, I SAID TIME WAS IMPORTANT FACTOR, AND IT SEEMS TO ME IF CABINET INTRODUCED TAX BILL NEXT WEEK, AS JACK HAD OUTLINED TO REYNOLDS, THIS WOULD MEAN END OF NEGOTIATIONS. ONCE PM HAD TAKEN PUBLIC STAND ON TAX LEVEL IT WOULD BE IMPOSSIBLE TO REDUCE THE LEVY. I SAID OF COURSE IT WOULD BE "SOMEWHAT" DIFFERENT IF THE BILL MERELY AUTHORIZED THE EXECUTIVE TO NEGOTIATE A TAX, BUT THIS DIDN'T SEEM TO BE ENTIRELY FEASIBLE EITHER.

14. BURNHAM READILY ADMITTED THIS WAS ESSENTIALLY  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 GEORGE 01394 02 OF 02 110031Z

CORRECT, AND SAID HE WANTED TO CONSULT WITH MINMINES JACK AND THEN SEE ME AGAIN EITHER TONIGHT OR TOMORROW. HE IS TO CALL ME AT 1900 TONIGHT TO SET TIME.

15. IN CLOSING, BURNHAM SAID US HAD ALWAYS PLAYED FAIR WITH HIM AND HE VALUED US FRIENDSHIP AND ASSISTANCE BOTH PAST AND PRESENT. HE WANTED TO CONTINUE FRIENDLY RELATIONS WITH US NOT ONLY BECAUSE OF THIS PAST HISTORY BUT ALSO BECAUSE HE RESPECTED US POWER. I SAID WE SHARED FULLY HIS DESIRE FOR FRIENDLY AND CONSTRUCTIVE RELATIONS, AND THAT IT WAS ON THAT BASIS WE FELT NEED TO DISCUSS REYNOLDS CASE WITH HIM. I ASSURED HIM US AWARE OF "POWER" ASPECT BUT WE ALSO UNDERSTOOD NEED TO USE POWER WITH RESTRAINT.

16. I AM FORWARDING BY SEPTTEL OUR THOUGHTS ON POSSIBLE OPTIONS REFERRED TO IN PARA 11. KREBS

NOTE BY OCT: NOT PASSED OPIC.  
# AS RECEIVED.

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** NATIONALIZATION, BAUXITE, SUPPLIES, FOREIGN RELATIONS, MINING INDUSTRY, NEGOTIATIONS, TAX CHANGES, BUSINESS FIRMS, LONG TERM LEASES, MEETING REPORTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 10 AUG 1974  
**Decaption Date:** 28 MAY 2004  
**Decaption Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** cunninfx  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1974GEORGE01394  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D740220-0006  
**From:** GEORGETOWN  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1974/newtext/t19740858/aaaabxjm.tel  
**Line Count:** 263  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION SS  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** EXDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 5  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** EXDIS  
**Reference:** STATE 174380  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** cunninfx  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 16 SEP 2002  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <16 SEP 2002 by boyleja>; APPROVED <20 FEB 2003 by cunninfx>  
**Review Markings:**

Declassified/Released  
US Department of State  
EO Systematic Review  
30 JUN 2005

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** REYNOLDS GUYANA - MEETING WITH PRIME MINISTER  
**TAGS:** EMIN, PFOR, GY, US, REYNOLDS GUYANA, (BURNHAM)  
**To:** STATE  
**Type:** TE  
**Markings:** Declassified/Released US Department of State EO Systematic Review 30 JUN 2005